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Dollar Dominance in the Global Financial System: Dissatisfaction without Displacement*

Massimiliano Castelli

This paper examines the evolving role of the US dollar in the international monetary system through the lens of reserve manager behaviour. Combining survey evidence from the UBS Reserve Manager Survey with IMF COFER and BIS data, it identifies a growing divergence between declining confidence in the institutional foundations of dollar dominance and the persistence of dollar-centric reserve portfolios. Structural constraints, such as market depth, liquidity, safe asset supply, and financial infrastructure, continue to anchor the system despite rising geopolitical concerns. The findings characterise the system as one of "dissatisfaction without displacement": beliefs are shifting, but portfolio adjustments remain gradual. Scenario analysis suggests that meaningful change is more likely to be crisis-driven than incremental.

Journal of Economic Literature (JEL) codes: E58, F33, C83, G11

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1. Introduction

The role of the US dollar (USD) at the centre of the international monetary system has long been considered one of the defining features of the global financial

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Massimiliano Castelli: UBS Asset Management, Managing Director and Head of Strategy and Advice for Sovereign Institutions. Email: massimiliano.castelli@ubs.com

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architecture.[1] Despite repeated predictions of its decline, the dollar continues to dominate foreign exchange reserves, international trade invoicing, financial contracting, and global liquidity provision.

Recent developments, however, have introduced growing tension into this system. Rising geopolitical fragmentation, increased use of financial sanctions, concerns over US fiscal sustainability, and questions surrounding institutional credibility have prompted renewed debates about the durability of dollar dominance. At the same time, the emergence of alternative currencies, the expansion of gold holdings, and technological innovations such as digital currencies have intensified discussions around potential transitions toward a more multipolar monetary system.

This study combines survey-based evidence with aggregate reserve data and qualitative insights to distinguish between three analytical layers: beliefs, intentions, and outcomes.

One key contribution of the paper is to show that these layers evolve at different speeds. While beliefs may adjust rapidly, outcomes are shaped by institutional inertia, market structure, and operational constraints. The findings suggest that the international monetary system is best characterised not by transition or stability alone, but by a combination of both: a system in which dissatisfaction is rising, yet displacement remains limited.

The paper proceeds as follows. *Section 2* outlines the analytical framework and data sources. *Section 3* reviews the relevant literature. *Section 4* examines the structural foundations of dollar dominance. *Section 5* analyses reserve manager behaviour and its evolution over time. *Section 6* evaluates alternative reserve assets. *Section 7* develops scenario-based perspectives on the future of the

[1] The centrality of USD to the international monetary system has long been recognised in the literature on hegemonic stability, international monetary arrangements, and reserve currency competition. Early and subsequent contributions emphasised the role of international public goods, financial market depth, network effects, and institutional credibility in sustaining dollar dominance (*Kindleberger 1973; Cohen 1998; Eichengreen 2011; Gopinath et al. 2020*). More recent contributions have also highlighted the role of the dollar as the central node in a global liquidity and funding system, sustained through offshore dollar markets and private-sector credit creation (*Mehrling 2010; Pozsar 2014*). Please see Section 3 for a more in-depth discussion of these perspectives and their implications for the analysis developed in this paper.

system. *Section 8* discusses broader implications, *Section 9* outlines policy considerations, and *Section 10* concludes.

2. Analytical framework and data

The objective of this paper is not to estimate structural parameters or forecast currency shares of foreign exchange (FX) reserves, but rather to understand how reserve managers perceive risks, constraints, and strategic trade-offs in the current international monetary system.

The analysis distinguishes between three layers:

- *Beliefs*: how reserve managers assess the credibility, stability, and geopolitical risk of major currencies.
- *Intentions*: stated plans regarding diversification, hedging, or strategic rebalancing.
- *Outcomes*: realised reserve allocations as observed in COFER data.

In practice, beliefs may change rapidly, intentions more slowly, and outcomes only gradually. Institutional processes, internal risk committees, benchmark constraints, and political oversight introduce significant inertia between layers.

The primary empirical input is the UBS Reserve Manager Survey (RMS), an annual survey of central banks and public reserve-holding institutions conducted by UBS Asset Management. The survey typically covers around fifty institutions across advanced and emerging economies, including senior officials directly involved in reserve management and strategic asset allocation decisions. Participation is voluntary and responses are anonymised. The questionnaire combines quantitative elements (expected currency and asset-class shares, diversification horizons, ranking of decision criteria) with qualitative assessments (confidence in institutional frameworks, geopolitical concerns, and operational constraints).

A number of surveys of sovereign institutions are conducted regularly by private financial institutions, think tanks, and multilateral organisations. The choice of the RMS in this paper is motivated by the specific objective of the analysis. While official reserve statistics such as IMF COFER provide valuable information on realised portfolio outcomes, they offer limited insight into the beliefs, intentions, and institutional constraints that shape reserve decisions. The RMS is particularly useful because it captures forward-looking assessments by reserve managers themselves and does not only focus on investment and operational issues related to foreign exchange reserve management, but also on how reserve managers assess the evolving geopolitical, economic, and financial environment in which they operate. This makes it possible to examine how perceptions and strategic priorities evolve even when portfolio allocations remain stable, allowing a more systematic analysis of the divergence between changing beliefs and persistent reserve outcomes that lies at the centre of this paper.

The value of repeated surveys lies in their ability to capture changes in beliefs and priorities that are not observable in aggregate data. Official reserve statistics reflect realised portfolios, which adjust slowly and are heavily constrained by market structure, regulation, and institutional mandates. Surveys provide a forward-looking complement by revealing how reserve managers interpret the evolving environment. This makes it possible to identify shifts in emphasis even when portfolio allocations remain stable. Rather than focusing exclusively on point estimates in a single year, this paper draws on successive survey rounds to trace changes in: i) perceived risks to dollar dominance; ii) relative attractiveness of alternative reserve currencies; iii) importance attached to geopolitical versus financial factors; and iv) the role of gold and the impact of digitisation. This longitudinal perspective is particularly valuable in a system characterised by high inertia. It allows one to distinguish between temporary reactions to shocks and more persistent changes in institutional thinking.[2]

Survey evidence is complemented by IMF COFER data on the currency composition of official foreign exchange reserves, BIS statistics on international banking, securities issuance and cross-border payment infrastructure (*BIS 2023*), as well as European Central Bank (ECB) and IMF reports on reserve currency use, financial fragmentation, and safe asset supply. These sources allow comparison between stated preferences and actual portfolio outcomes and help distinguish between structural constraints and shifts in sentiment.

The practitioner-oriented perspective adopted in this paper complements rather than substitutes for existing theoretical approaches to reserve currency dominance. While the literature reviewed in the following section highlights the importance of hegemonic leadership, network effects, market depth, trade invoicing, and global liquidity provision, the survey evidence used here helps illuminate how these structural features are interpreted by reserve managers themselves. In this sense, the UBS RMS provides an institutional lens through

[2] Some limitations should be acknowledged. The survey sample, while broad, is not universal. Responses may be influenced by strategic considerations or reluctance to disclose sensitive views. Aggregate reserve data are reported with lags and at a high level of aggregation, obscuring intra-currency heterogeneity. Nevertheless, when interpreted jointly, repeated survey evidence and official statistics provide a coherent picture of a system characterised by rising concerns and limited behavioural adjustment.

which the interaction between systemic forces and portfolio behaviour can be better understood.

3. Literature review

The academic literature on international reserve currencies spans international economics, political economy, monetary history, and financial market microstructure. While early contributions focused on the provision of international public goods by hegemonic powers, more recent work has emphasised network effects, institutional credibility, financial market depth, and the strategic interaction between states. This section reviews the main strands of this literature and highlights where a practitioner perspective – grounded in reserve management constraints and institutional realities – both complements and challenges prevailing theoretical frameworks.

3.1. Hegemonic stability, public goods, and the origins of currency dominance

The classical point of departure is *Kindleberger* (*1973*), who argued that an open, stable international monetary system requires a dominant power willing and able to supply public goods, including a reserve currency, lender-of-last-resort facilities, and market access. In this view, the post-war dollar system reflected not only the economic size of the United States, but also its political willingness to underwrite global liquidity and stability.

Triffin (*1960*) famously identified the internal contradiction of such systems: the issuer of the dominant reserve currency must supply liquidity to the world, typically via external deficits, but persistent deficits ultimately undermine confidence in the currency itself. Although the gold-dollar standard has long since disappeared, the "*Triffin dilemma*" continues to shape debates on US fiscal sustainability and safeasset supply. Proposals for a multilateral reserve currency modelled on existing SDRs are often brought forward to address the Triffin dilemma (*Robert Triffin International 2026*).

From a practitioner perspective, these early contributions remain relevant in two respects. First, they correctly identify reserve currency status as inseparable from political and institutional capacity. Second, they anticipate the tension between global liquidity provision and domestic policy constraints that reserve managers still monitor closely, particularly in periods of fiscal stress and geopolitical instability.

3.2. Network effects, inertia, and path dependence

Subsequent research shifted emphasis from political leadership to self-reinforcing market structures. *Krugman* (*1984*) and *Cohen* (*1998*) highlighted how transaction costs, established invoicing practices, and liquidity externalities create powerful network effects. Once a currency becomes dominant, users prefer it precisely because others already use it, generating inertia and multiple equilibria. Once a currency is dominant, switching costs are enormous; this explains why the dollar survived the end of Bretton Woods, the 1970s inflation and the 2008 financial crisis.

Eichengreen (*2011*) extended this reasoning historically, showing that transitions between dominant currencies are slow, overlapping, and contingent on financial development rather than simple shifts in economic size. The replacement of sterling by the dollar was not abrupt but unfolded over decades. By 1910, the US had already become the largest economy in the world and New York was a rising financial centre. However, the dollar did not immediately replace sterling and for about three decades the two currencies coexisted. What Eichengreen shows is that reserve currency transitions are slow, overlapping, and often messy.

For reserve managers, these arguments resonate strongly. Portfolio reallocation is constrained not only by strategic preferences but also by operational systems, legal frameworks, benchmark structures, and the depth of eligible asset markets. In this sense, inertia is not merely behavioural; it is embedded in institutional practice.

3.3. Modern models of the international monetary system: liquidity, trade invoicing, and the Money View

Recent theoretical work has formalised these intuitions. *Farhi and Maggiori* (*2018*) model the international monetary system as an equilibrium in which reserve currencies provide safety and liquidity services. Dominant issuers benefit from “exorbitant privilege” but also bear the cost of stabilising global markets during crises. The paper also shows that a global monetary system dependent on a reservecurrency country supplying safe assets is inevitably unstable as growing global demand for that asset eventually undermines confidence in that currency.

Gopinath et al. (*2020*) propose the “dominant currency paradigm”, demonstrating that trade invoicing and financial contracting in a single currency can persist even when trade patterns diversify. This insight helps explain why the dollar remains central to global trade finance and commodity markets, despite the rise of China and other emerging economies.

One complementary strand of the literature, often referred to as the “Money View”, shifts attention from reserve holdings and sovereign balance sheets to the functioning of global liquidity and funding markets. Rather than viewing the international monetary system primarily through the lens of official reserves, this perspective emphasises the role of the dollar as the apex of a hierarchical monetary system sustained by private-sector credit creation, offshore dollar funding, and wholesale financial intermediation (*Mehrling 2010; Pozsar 2014*). In this framework, dollar dominance reflects not only institutional credibility and network effects, but also the centrality of USD in collateral markets, cross-border banking, and international settlement mechanisms. This perspective is particularly useful in understanding why structural demand for dollar liquidity may persist even when confidence in the institutional foundations of the system weakens.

These models capture important structural mechanisms, yet they abstract from institutional frictions that practitioners consider critical: regulatory constraints on eligible assets, internal risk management frameworks, political mandates, and reputational cost considerations.

As a result, theoretical predictions about diversification often overstate the speed with which portfolios can adjust. The dominance of the dollar has remained almost intact, despite mounting concerns about debt sustainability, downgrades of US Treasuries (UST) and, more recently, a weakening of the rule of law in the US, including concerns about the independence of the Federal Reserve (*Bahceli 2025*).

3.4. Political economy, sanctions, and weaponised interdependence

A more recent strand of the literature focuses on the geopolitical dimension of currency dominance. *Farrell and Newman* (*2019*) introduce the concept of "weaponised interdependence", arguing that control over financial networks and infrastructures can be leveraged for coercive purposes. *Drezner et al.* (*2021*) and others analyse how sanctions and network dependence reshape incentives for reserve accumulation and currency choice.

Some authors, notably *McDowell* (*2023*), contend that sanctions strengthen the dollar by weakening rivals and reinforcing demand for safe assets. Others warn that excessive reliance on financial coercion may gradually erode trust and encourage diversification into gold or alternative currencies. The recent rise in the share of gold held by reserve managers as a share of total reserves appears to validate the diversification option as a reaction to the use of sanctions targeting FX reserves. This has been particularly true following the freezing of international reserves held by the Russian central bank, an unprecedented measure when the size of its reserves and the country involved are considered.

Mounting concerns about the use of FX reserves as a geopolitical tool for noneconomic or financial goals have also emerged more recently with the "no-deal" on the proposed de-facto confiscation of Russia frozen reserves to finance Ukraine. This was largely a result of the opposition of the ECB fearing the violation of central banks' mandates and the potential negative impact on the international role of the euro (*Bonini 2025*).

3.5. Bridging the literature and reserve management practice

The above strands in the literature provide important insights into the persistence and vulnerabilities of dominant reserve currencies. However, from a practitioner perspective, an additional layer of analysis is required to understand how structural forces translate into actual reserve management decisions

Taken together, the literature convincingly explains well why dominant currencies persist: network effects, safe-asset provision, and institutional credibility interact to create formidable barriers to entry. It also explains well where the vulnerabilities of a monetary system dependent on a dominant reserve currency lie: rising debt levels, weakening rule of law and the weaponisation of reserves.

Where the literature is less complete is in its treatment of operational and governance constraints. From a practitioner perspective, reserve management is shaped by conservative mandates, reputational risk, liquidity constraints and political oversight (*Castelli and Gerlach 2020*). These factors generate a strong bias toward incrementalism. Diversification, when it occurs, is typically framed as risk management rather than strategic realignment. Changes in key strategic reserve management guidelines – for instance the currency composition – are often the result of a prolonged internal decision-making progress. Reserve managers rarely take tactical or directional investment decisions, leaning heavily towards stability and predictability.

This observation does not contradict existing theory, but rather adds an institutional layer that helps to explain the persistent gap between the apparent declining confidence in the dollar and the limited scale of observed portfolio shifts. Understanding this gap is essential for interpreting both survey evidence and aggregate reserve data in the sections that follow.

4. Structural foundations of dollar dominance

The persistence of the US dollar at the centre of the international monetary system cannot be understood solely through the lens of macroeconomic size or historical precedent. It is anchored in a set of structural features that are deeply embedded in global financial practice and difficult to replicate. From the perspective of reserve managers, these features are not just abstract theoretical constructs: they are operational realities that shape day-to-day portfolio decisions, risk management frameworks, and crisis response planning.

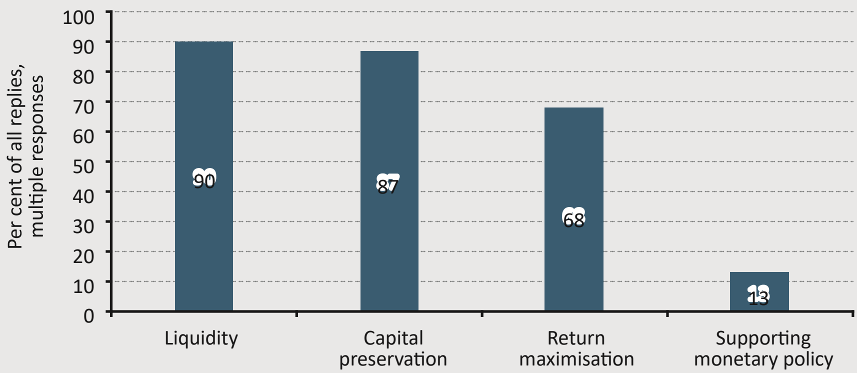
4.1. Market depth, liquidity, and scalability

The most frequently cited advantage of dollar assets is the depth and liquidity of US financial markets, in particular the market for US Treasury securities. With outstanding volumes exceeding USD 25 trillion and a highly developed dealer ecosystem, the Treasury market provides a level of scalability unmatched by any other sovereign bond market.

For reserve managers, scalability is not a secondary consideration. Portfolios often need to be adjusted in large sizes and under stressed conditions, whether to stabilise domestic currency markets, meet external obligations, or provide emergency liquidity to domestic financial institutions. Only US Treasuries offer the combination of size, continuous trading, and operational infrastructure required to execute such transactions without materially affecting market prices.

In practice, this means that diversification away from the dollar is constrained not only by preferences but also by market capacity. Even where alternative assets are attractive in principle, their limited depth imposes binding constraints at the portfolio level. The importance of liquidity is also highlighted by reserve managers' mounting concerns about the proper functioning of the UST market (*Figure 1*).

Figure 1
Primary investment objectives of reserve managers

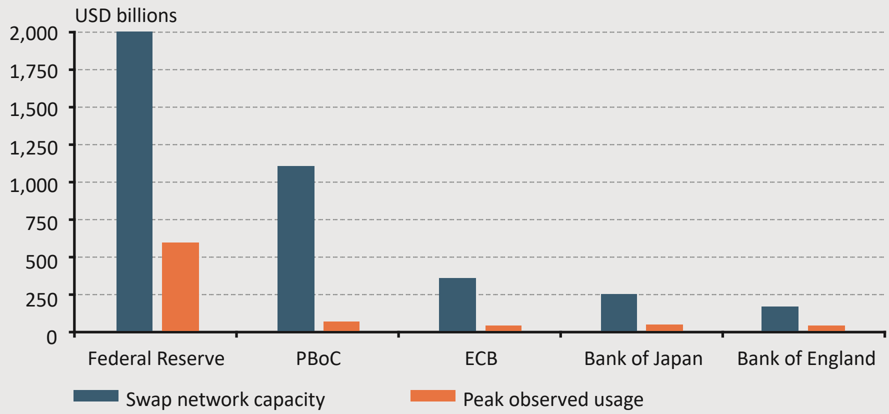


Source: UBS Reserve Manager Survey, 2025

4.2. Safe asset supply and crisis elasticity

A second structural pillar is the United States' ability to supply safe assets elastically during periods of stress. The experience of the global financial crisis, the euro area sovereign debt crisis, the pandemic, and recent geopolitical shocks has reinforced the perception that US fiscal and monetary institutions can expand the supply of risk-free assets when global demand surges. The Fed has swap agreements with other central banks totalling nearly USD 2 trillion, well above that of any other central bank such as the People's Bank of China (PBoC) or the European Central Bank (*Figure 2*).

Figure 2
Central banks swaps



Note: Values represent approximate capacity and observed peak usage.

Source: Federal Reserve Board (Central Bank Liquidity Swaps, peak usage 2008); PBoC bilateral RMB swap agreements; ECB liquidity line disclosures; Bank of Japan and Bank of England swap facilities; BIS and IMF reports on global central bank liquidity arrangements

This "elasticity of safety" is central to modern reserve management. Central banks value not only the current stock of safe assets but also the credibility of future supply. In this respect, the dollar benefits from the combination of monetary sovereignty, deep domestic capital markets, and a political system that – despite polarisation – has historically prioritised debt servicing.

From a practitioner standpoint, in the short to medium term this feature outweighs concerns about long-term debt sustainability. Reserve managers frequently distinguish between structural fiscal risk and immediate market functionality, with the latter carrying greater weight in operational decision-making. Until a few years ago, the potential supply of liquidity by the Federal Reserve was considered almost unlimited; in other words the elasticity of supply was almost infinite. More recently, concerns over the willingness of the US to be "the lender of last resort" have emerged as a result of the political use of tariff and sanctions for geopolitical goals. Will the US and the Fed provide liquidity to countries indiscriminately or only when they meet the US economic and financial interests?

4.3. Collateral centrality and financial plumbing

Dollar assets occupy a central position in the global collateral system. US Treasuries are the dominant form of high-quality collateral in repo markets, derivatives margining, and secured funding transactions.

This role creates powerful complementarities. Institutions that operate in dollar-based funding and settlement systems naturally hold dollar assets to manage liquidity risk. Central banks, in turn, structure their portfolios to remain compatible with these systems, reinforcing the dollar's network advantages.

Recent contributions associated with the "Money View" further reinforce the structural logic of dollar persistence. Rather than focusing primarily on official reserves or sovereign balance sheets, this perspective emphasises the role of the dollar as the central settlement asset within a global hierarchy of money sustained by private-sector credit creation, offshore dollar markets, and wholesale funding mechanisms. From this perspective, the persistence of dollar dominance reflects not only confidence in US institutions or reserve preferences, but also the centrality of dollar liquidity in cross-border banking, repo markets, derivatives collateralisation, and trade finance.

This is particularly visible in the Eurodollar system and cross-currency funding markets, where global financial institutions continue to intermediate large volumes of dollar liquidity outside the United States.[3] Periodic disruptions in these markets – including during the Global Financial Crisis, the COVID shock, and episodes of market stress in recent years – have repeatedly required central bank swap lines and dollar liquidity facilities, reinforcing the dollar's role as the global liquidity backstop. From a reserve management perspective, these dynamics create an additional structural floor under demand for dollar assets, largely independent of stated diversification preferences.

In practical terms, this means that reserve portfolios are designed not only as stores of value but as functional components of a broader financial infrastructure. Replacing dollar assets would therefore require not only alternative currencies, but alternative collateral ecosystems, settlement conventions, and legal frameworks as well.

[3] A contemporary illustration is provided by recent episodes of yen carry trade unwinding. For decades, exceptionally low Japanese interest rates encouraged global investors to borrow in yen and invest in higheryielding foreign assets, often USD-denominated securities. As Japanese yields have gradually normalised, periods of carry unwinding have highlighted the sensitivity of global liquidity conditions to funding costs, exchange-rate volatility, and access to dollar funding. While not directly linked to reserve management decisions, such episodes illustrate the continued centrality of USD in global liquidity provision and funding markets.

4.4. Trade invoicing and financial contracting

The dominance of the dollar in trade invoicing and international financial contracts further entrenches its reserve role. Even countries with limited direct trade exposure to the United States frequently invoice commodities and intermediate goods in dollars. 40 per cent of global exports are invoiced in USD, well above the share the US share in global trade (*ECB 2025*). The dollar is not just a national currency – it is the global "vehicle currency" for trade, consistent with *Eichengreen's* (*2011*) analysis of reserve currency persistence and international invoicing.

The dollar share in cross-border payments – according to SWIFT – is about 50 per cent. This is very important for sanctions as they operate through payment infrastructure control; if a transaction touches USD or US banks US jurisdiction applies. More importantly, more than 80 per cent of global trade finance (including letters of credit, financing and guarantees) is in USD. Commodities are largely invoiced in USD (*Bertaut et al. 2025*).

For reserve managers, this creates a natural alignment between reserve composition and balance-of-payments exposure. Holding dollar assets serves as a hedge against trade-related payment obligations and external financing needs. Although some diversification of invoicing currencies has occurred, particularly in regional trade, the dollar remains the reference currency for a large share of global commerce. This reinforces the incentive to maintain substantial dollar liquidity buffers.

4.5. Rule of law and institutional credibility

Beyond market mechanics, the dollar benefits from a long-standing legal and institutional framework that underpins property rights, contract enforcement, and investor protection.

The rule of law rests on three key pillars: enforceability of contracts, independence of the courts, and the protection of property rights. No other jurisdiction can provide the same level of certainty as the US legal system. Reserve managers place considerable weight on legal certainty, particularly when managing public assets subject to political scrutiny. The perceived neutrality and robustness of US courts, settlement systems, and custodial arrangements remain important elements of dollar dominance.

US policy credibility rests on two key institutions: the Federal Reserve System and the US Treasury. The credibility of these two institutions has been built over time with predictable monetary policy and a commitment to low inflation (over the long term). Even when their policy is imperfect, it is understood and transparent.

While recent political developments have raised questions about institutional stability, the US legal system continues to be perceived as more predictable than the attractiveness of most alternatives. For instance, China still scores poorly in terms of capital controls, political influence over courts, and uncertain property rights

4.6. Stability today, fragility tomorrow

Taken together, these structural foundations explain why the dollar's dominance persists, despite growing unease about the geopolitical and institutional trajectory of the United States.

At the same time, they point to a paradox. The very inertia that stabilises the system in the short run may increase vulnerability over longer horizons. As portfolios remain concentrated and alternatives remain underdeveloped, the system becomes more sensitive to extreme shocks affecting the core. From a practitioner perspective, this tension is well understood, but is difficult to resolve. Reserve managers are tasked with preserving stability, not redesigning the international monetary system. As a result, structural dependence on the dollar is likely to persist even as confidence erodes at the margin.

5. Reserve manager beliefs, behaviour, and their evolution over time

Survey results point to a striking and consistent pattern: confidence in the long-term institutional foundations of dollar dominance has weakened, yet expectations of near-term displacement remain low. Looking across successive UBS RMS rounds, several systematic trends emerge.

5.1. Beliefs

First, the focus of risk assessment has shifted. Earlier surveys placed greater emphasis on macroeconomic and market risks, including inflation volatility and interest rate uncertainty. Since the early 2020s, geopolitical factors have moved decisively to the foreground. Sanctions, asset freezes, and payment-system access are now discussed routinely alongside credit and liquidity considerations.

Second, concerns about the institutional environment in the United States have become more explicit. While earlier survey rounds rarely highlighted governance issues, recent responses increasingly reference central bank independence, political polarisation, and the stability of the legal framework as relevant for long-term reserve strategy.

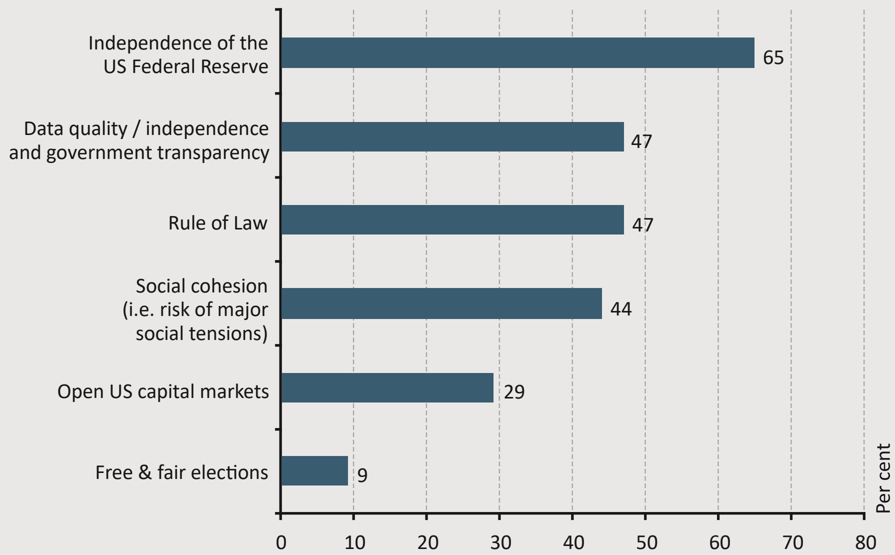
Third, the perceived attractiveness of gold as a reserve asset has risen steadily. Initially viewed primarily as a diversification tool, gold is now frequently described as a hedge against extreme geopolitical scenarios and financial coercion. This shift is visible both in qualitative responses and in reported intentions to increase gold allocations.

Fourth, attitudes toward alternative currencies have evolved asymmetrically. Interest in the euro has increased modestly, often linked to expectations of deeper European financial integration. By contrast, views on the renminbi remain divided: some reserve managers see strategic value in limited exposure, while others remain constrained by concerns over capital controls and political risk.

From a practitioner perspective, this reflects realism rather than optimism. Dominance is defined operationally: by liquidity, market depth, collateral usability, and settlement infrastructure. In these dimensions, no alternative currently offers comparable scale. Respondents increasingly cite concerns related to:

- US fiscal sustainability and debt dynamics,
- political polarisation and governance risk,
- the weaponisation of financial infrastructure, and
- the long-term credibility of policy frameworks (*Figure 3*).

Figure 3
Expected deterioration of key economic and institutional factors in the US



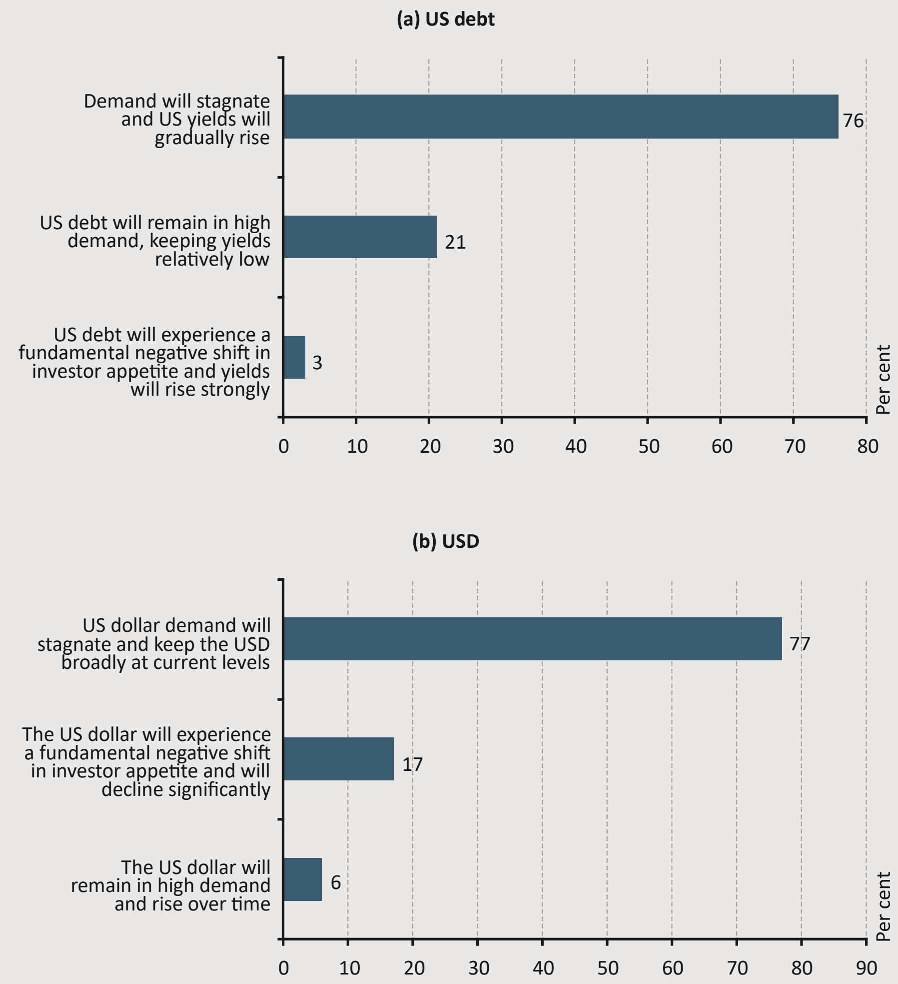
Source: UBS RMS Survey, 2025

These concerns are particularly pronounced among reserve managers in emerging economies, but are also present among advanced economies' institutions. They are evaluated in relative terms: the dollar is not compared to an ideal benchmark, but to the institutional limitations of available alternatives.

5.2. Why beliefs do not translate into reallocation

Despite these changes in perception, the pace of actual portfolio adjustment has remained slow: according to the 2025 UBS survey nearly 80 per cent of respondents believe that USD will not lose its status as a global reserve currency over the next years. Furthermore, despite the mounting concerns about US debt sustainability and the independence of the central bank, demand for US Treasuries and USD is expected to remain relatively stable according to the majority of reserve managers responding to the survey (*Figure 4*).

Figure 4
Expected evolution of demand for US debt and USD



Source: UBS RMS Survey, 2025

The persistence of dollar dominance in realised allocations stands in sharp contrast to the growing prominence of institutional and geopolitical considerations in survey responses. The gap between declining confidence and stable portfolios can be explained by several operational constraints:

- *Liquidity requirements*: reserve portfolios must be deployable at scale during market stress. Only US Treasury markets consistently meet this criterion.
- *Benchmarking and peer effects*: many institutions follow conservative benchmarks or peer-relative frameworks, reinforcing convergence around established allocations.

- *Regulatory and legal mandates*: eligible assets are often narrowly defined, limiting the scope for experimentation.
- *Reputational risk*: significant deviations from established practice expose reserve managers to political scrutiny if outcomes disappoint.

As one respondent to the 2025 survey noted "diversification is easy to discuss, but difficult to execute at the scale and speed markets assume". Across recent survey rounds, a large majority of respondents expect USD to remain the dominant reserve currency over the next decade. Only a small minority anticipate a rapid transition to a multipolar system. This expectation holds across both advanced and emerging market respondents.

Where diversification occurs, it is typically framed as incremental risk management:

- modest increases in gold holdings,
- selective use of smaller currencies,
- limited experimentation with renminbi assets,
- extension along the maturity spectrum of existing dollar portfolios.

This behaviour is consistent with a system adapting at the margin, rather than undergoing structural transition.

5.3. Dissatisfaction without displacement

The multi-year survey evidence reinforces the interpretation of "dissatisfaction without displacement". The international monetary system is evolving primarily through changes in beliefs and risk assessments rather than through rapid portfolio reallocation. For analysts relying solely on aggregate data, this evolution is difficult to detect. Survey evidence therefore provides an essential complement, revealing pressures building beneath an apparently stable surface. For policy makers, the implication is that structural change, if it occurs, is likely to be crisis-driven rather than gradual, as beliefs and operational constraints continue to diverge.

6. Alternatives to the dollar

Discussions of de-dollarisation often assume the existence of viable substitutes. In practice, reserve managers evaluate alternatives against a demanding set of criteria: market depth, liquidity, safety, legal certainty, operational usability, and geopolitical risk. In these dimensions, no single asset currently matches the dollar

(*Table 1*). Instead, alternatives offer partial substitutes, each constrained by specific limitations.

Table 1
Evolution of the currency composition of FX reserves (Per cent)

Currencies	1995	2000	2005	2010	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
USD	61.9	71.1	66.5	61.8	64.1	65.3	62.7	61.7	60.7	59.0	58.8	58.4	58.4	57.8	56.8
EUR*	28.4	18.3	23.9	26.0	19.9	19.1	20.1	20.7	20.6	21.2	20.6	20.5	20.0	19.8	20.2
GBP	2.2	2.8	3.7	3.9	4.9	4.3	4.5	4.4	4.6	4.7	4.8	4.9	4.8	4.7	4.4
JPY	7.1	6.1	4.0	3.7	4.1	3.9	4.9	5.2	5.9	6.0	5.6	5.5	5.7	5.8	5.8
CAD	NA	NA	NA	NA	1.9	1.9	2.0	1.8	1.9	2.1	2.4	2.4	2.6	2.8	2.5
AUD	NA	NA	NA	NA	1.9	1.7	1.8	1.6	1.7	1.8	1.8	2.0	2.1	2.1	2.0
REM	NA	NA	NA	NA	NA	1.1	1.2	1.9	1.9	2.3	2.8	2.7	2.3	2.2	2.0
REM**	NA	NA	NA	NA	NA	1.7	1.8	2.6	2.7	3.1	3.7	3.7	3.2	3.0	2.0
CHF	0.4	0.3	0.1	0.1	0.3	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.5	1.7	4.4	3.0	2.4	2.5	2.5	2.5	2.7	3.0	3.5	3.9	4.6	6.1	NA

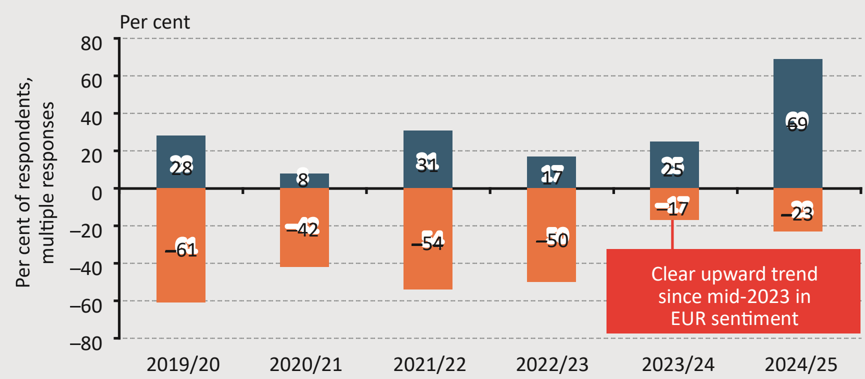
*Note: * ECU and other European currencies before the introduction of the euro, ** excl Chinese reserves.*
Source: IMF COFER as of October 2025

6.1. Euro: credible but incomplete

The euro is widely regarded as the most credible alternative reserve currency. It benefits from the economic scale of the euro area, a strong commitment to price stability by the ECB, and a sophisticated financial sector.

In the latest UBS Survey, the euro was in fact the most frequently mentioned currency when asked which currencies were added on a net basis to reserves during the past year. This represent the best result for the euro as a reserve currency after many years of stagnation; the fears of a break-up of the euro that emerged after the fiscal crisis in early 2010s are now a distant memory (*Castelli 2026*).

Figure 5
Changes in EUR allocations among reserve managers, 2019–2025



Note: Number of survey respondents that reported increases or decreases to EUR allocations since 2020.

Source: UBS Annual Reserve Manager Survey results from 2020–2025

However, the improved outlook for the euro has not translated into a significant increase in the share of the euro in global foreign exchange reserves. By the third quarter of 2025 – after "Liberation Day", a weakening USD and rising concerns about the UST market – the share of the euro in global reserves stood at around 20.5 per cent. This is around 1.5 percentage points higher than at the end of 2024, but most of this increase is explained by the revaluation of EUR against USD. After netting out the currency effect, the share of the euro is basically unchanged. Whilst reserve managers indicate growing interest in the euro area currency, this has not yet translated into any significant additional flows of reserves.

From a reserve management perspective, three structural constraints dominate. First, the absence of a unified fiscal authority limits the supply of a single, homogeneous safe asset comparable to US Treasuries. EUR-denominated sovereign bond markets remain fragmented along national lines, complicating large-scale portfolio allocation and liquidity management. Recent joint issuance under the Next Generation EU programme and more recently to fund defence expenditure and support Ukraine has been welcomed by reserve managers as a positive development, increasing the stock of high-quality EUR-denominated assets. Nevertheless, most respondents view this as an incremental improvement rather than a structural transformation.

Second, financial market integration within the euro area remains incomplete. Progress toward the capital markets union – now rebranded as the Saving and Investment Union – has been uneven, and cross-border market depth remains limited relative to the United States. The shift in approach with the Saving and Investment Union – from directives to regulations, the 28th regime and the phased approach – could be a catalyst for finally making progress. However, the key question is whether there is enough support across member states to give up sovereignty in very politically sensitive areas such as the banking sector and the pension sector.

Third, crisis management frameworks, while significantly strengthened since 2012, are still perceived as politically complex and slower to activate than their US counterparts. In the euro area, crisis response is institutionally fragmented across multiple bodies, including the ECB (monetary policy, lender of last resort to banks), the European Stability Mechanism (sovereign rescue facility), the European Commission (fiscal rules, coordination) and national governments (fiscal authority). In other words, crisis management is a multi-layered negotiation system in the euro area. This contrasts with the US system which is perceived as having fewer veto points, a clear hierarchy and faster execution.

The ECB’s evolving stance toward the international role of the euro, increasingly framed in terms of strategic autonomy and financial resilience, is well noted by reserve managers. However, it is widely understood that institutional reforms, rather than policy communication, will ultimately determine the euro’s reserve potential (*Castelli 2026*).

6.2. Renminbi: rising but constrained

China’s economic size and role in global trade make the renminbi a natural candidate for greater international use. Over the past decade, the inclusion of renminbi in the IMF’s SDR basket, expansion of offshore clearing centres, and development of Chinese bond markets have increased its visibility in reserve portfolios.

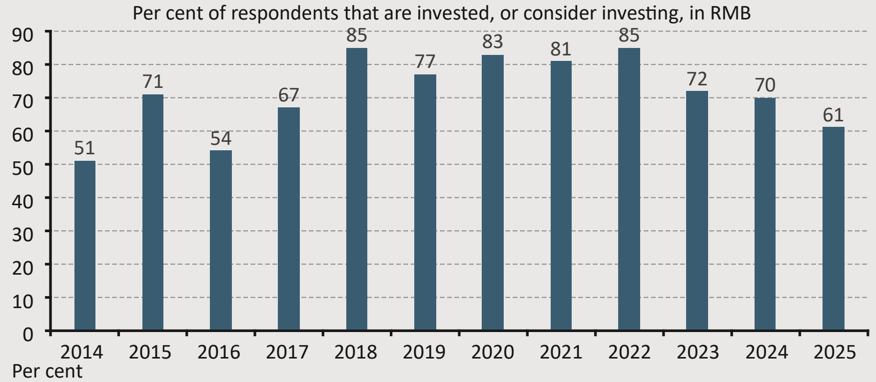
In practice, uptake has remained limited. According to the latest COFER data, RMBdenominated reserves represent about 2 per cent of global FX reserves (*IMF 2026*). Following the inclusion of RMB in the SDR basket, there has been growing interest in RMB bonds among reserve managers; however, this interest has been levelling off in the last few years and the share of RMB in global reserves has been stagnating at low levels.

The principal constraint continues to be capital account management. Restrictions on capital flows, combined with episodic regulatory intervention, reduce the attractiveness of RMB assets for institutions whose primary objective is liquidity and risk minimisation. The inclusion of RMB in the SDR basked was largely a “political decision” based on the assumption that China would continue to open up its financial sector and ultimately the capital account.

Legal transparency and governance are also recurring concerns. Reserve managers emphasise the difficulty of assessing political risk and the lack of independent judicial recourse in the event of disputes. Finally, it also appears that growing tensions between the US and China over trade, technology, and many other issues are perceived by many reserve managers as a risk, as they fear the potential impact of (direct or indirect) sanctions should the relationship between the two superpowers escalate further.

As a result, RMB holdings are typically small, strategic, and carefully ring-fenced. They are viewed as a diversification tool, rather than as a core reserve asset.

Figure 6
Current and prospective RMB exposure among reserve managers, 2014–2025



Note: The average long-term (10y) target allocation (not the actual allocations) to the RMB stands at around 5.9 per cent among survey participants, up from 5.0 per cent in the previous year.

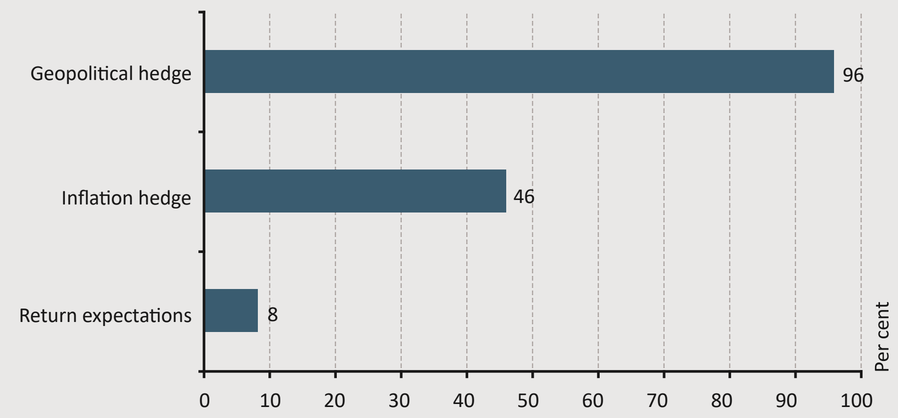
Source: UBS Annual Reserve Manager Survey results from 2014–2025

6.3. Gold: trusted but inert

Gold occupies a distinct position in reserve portfolios. It is not a currency, does not yield income, and is costly to store and insure. Nevertheless, its role has expanded in recent years.

Repeated survey evidence indicates that gold is increasingly viewed as a hedge against geopolitical risk, sanctions, and extreme financial scenarios. Unlike foreign currency assets, gold carries no issuer risk and is immune to legal seizure within domestic custody. From a practitioner perspective, gold's appeal lies precisely in these properties. However, its lack of liquidity in stressed market conditions and its price volatility limit the scale at which it can replace currency reserves.

Figure 7
Key drivers of increasing gold allocation at central banks



Source: UBS RMS Survey, 2025

It should also be noted that the net purchase of gold by central banks is a trend that has been going on for many years. It is largely driven by emerging markets, with China accounting for the lion's share. De-dollarisation and sanction risk appear to be the main motivations behind this trend. However, there is a limit in the share of FX reserves that central banks can allocate to gold. Gold therefore functions as a complement to, rather than a substitute for, dollar holdings.

6.4. Smaller currencies: stable but not systemic

Currencies such as the Japanese yen, Swiss franc, Canadian dollar, and Australian dollar play a role in diversification strategies. They offer political stability and well-regulated financial markets, but their limited market size constrains their systemic relevance. In most reserve portfolios, these currencies are used to finetune risk characteristics or enhance returns, rather than to alter strategic orientation.

6.5. Digital assets and central bank digital currencies

Technological innovation has prompted renewed discussion of whether digital assets or digital currencies could alter the structure of the international monetary system. In the 2025 survey, 44 per cent of reserve managers believe cryptocurrencies or stablecoins could benefit from macro shifts, putting them ahead of traditional currencies such as the yen or Swiss franc. However, the market remains fragmented, and regulatory clarity is still lacking in most jurisdictions.

Interestingly, there is also a geopolitical angle: some central banks see dollar-pegged stablecoins as a tool to enhance demand for short-dated Treasuries, while others view central bank digital currencies as a pathway to reduce reliance on the dollar altogether. The battle between decentralised and centralised digital monetary systems will undoubtedly shape future reserve strategies – but for now, the impact remains peripheral (*Castelli 2025*).

At present, reserve managers remain cautious. Cryptocurrencies are institutionally immature and are unlikely to become eligible as a reserve asset (*Feyen et al. 2024*). Central bank digital currencies are seen primarily as instruments for domestic payments efficiency rather than as reserve assets. At the wholesale level, however, some reserve managers increasingly monitor the development of cross-border CBDC platforms as a potential longer-term source of change in international payments infrastructure. Projects such as mBridge – involving cooperation among several central banks to facilitate cross-border wholesale payments using distributed ledger technology – are often discussed as potential mechanisms to reduce reliance on traditional correspondent banking channels and, at the margin, on dollar-centric settlement systems. While still at an experimental stage and limited in scale, such initiatives illustrate how technological innovation could gradually alter the operational infrastructure underpinning international transactions, particularly if combined with greater regionalisation of trade and finance. However, from a reserve management perspective, these developments are generally viewed as complements to existing systems rather than as immediate substitutes for the liquidity, safety, and market depth associated with dollar-based financial markets.

While digital infrastructure may eventually reduce transaction costs and reshape settlement systems, it is unlikely to resolve the fundamental issues of market depth, legal certainty, and safe-asset supply that underpin reserve currency status. Cryptoassets are currently incompatible with the traditional central banks' objectives of safety, liquidity, and return. They are highly volatile and are not very reliable as a store of value.

6.6. A constrained choice set

The evaluation of alternatives reinforces a central conclusion: dissatisfaction with the dollar does not imply the existence of a superior substitute. Reserve managers face a constrained optimisation problem. They may wish to reduce exposure to US-specific risks, but doing so requires accepting other, often less transparent, risks elsewhere.

In this context, diversification proceeds at the margin, through modest adjustments and portfolio layering, rather than through wholesale reallocation. The dollar remains the anchor not because it is flawless, but because the opportunity cost of abandoning it remains high.

7. Scenarios for the international monetary system

Forecasting the evolution of the international monetary system is inherently uncertain. Structural inertia coexists with episodic shocks, and small institutional changes can produce disproportionate effects when confidence is disrupted. Rather than offering point forecasts, this section develops a set of stylised scenarios that capture plausible pathways over the coming decade.

The scenario analysis follows a qualitative, practitioner-oriented approach rather than a formal probabilistic forecasting exercise. The scenarios are constructed using three complementary inputs: historical experience with reserve currency transitions and episodes of monetary fragmentation, including the prolonged, overlapping transition from sterling to the US dollar (*Eichengreen and Flandreau 2009*); the structural features of reserve currency systems discussed in the literature, including market depth, safe-asset supply, and network externalities; and repeated survey evidence on reserve manager beliefs and constraints from the UBS Reserve Manager Survey. The objective is not to assign probabilities to specific outcomes, but to identify plausible pathways and the conditions under which shifts in the international monetary system may accelerate or remain constrained. This approach is consistent with the scenario-based analysis commonly used by reserve managers and policy institutions when assessing long-term strategic risks under conditions of high uncertainty.

The scenarios are not mutually exclusive, and elements of different scenarios may coexist or emerge sequentially over time depending on political, institutional, and market developments.

7.1. Baseline scenario: Persistent dollar dominance with gradual diversification

In the baseline scenario, USD remains the dominant reserve currency throughout the next decade. Its share in global reserves declines slowly, but without a discrete break or regime change. This scenario would be a continuation of the trend experienced over the last years, with a steady decline in the share of USD in global FX reserves. Over the last two decades the USD share has fallen from more than 70 per cent to less than 60 per cent.

Structural drivers supporting this outcome include:

- continued depth and liquidity of US financial markets;
- absence of a unified euro-area safe asset;
- capital account restrictions in China; and

• the lack of scalable alternatives for collateral and crisis liquidity.

In this scenario, the diversification of FX reserves continues primarily at the margin:

• modest increases in gold holdings;

• incremental allocation to smaller currencies;

• limited growth in renminbi reserves; and

• selective use of euro-denominated assets.

Survey evidence is consistent with this outcome. While institutional confidence in the US has weakened, most reserve managers expect the operational advantages of the dollar to dominate portfolio construction for the foreseeable future. The implication is a system characterised by rising political unease but stable financial architecture.

7.2. Multipolar transition scenario

A second scenario envisions a gradual move toward a more multipolar reserve system. In this case:

• t he euro expands its role through sustained joint issuance, deeper capital markets, and stronger financial integration;

• the renminbi grows as capital controls are selectively relaxed; and

• gold continues to gain prominence as a geopolitical hedge.

The transition remains slow and incomplete. The dollar remains the single largest reserve currency, but its share declines more visibly as alternative pools of safe assets become operationally viable. This scenario requires credible progress on European fiscal and financial integration, durable institutional reforms in China and demonstrations of crisis management capacity outside the US. Absent these conditions, reserve managers are unlikely to materially rebalance portfolios.

7.3. Fragmentation scenario: financial blocs and regionalisation

A more disruptive scenario involves increasing geopolitical fragmentation and the emergence of partially segmented financial blocs. In a more fragmented geopolitical environment, efforts to reduce dependence on USD could also intensify through alternative payment arrangements linked to commodity trade and regional economic blocs. Discussions within BRICS and other groupings increasingly contemplate greater use of local currencies, gold-linked settlement mechanisms, or non-USD invoicing arrangements for strategic commodities such as energy, critical minerals, and agricultural goods. While these initiatives remain fragmented and operationally limited, a more systematic shift in the denomination of trade flows – particularly in energy and raw materials – could gradually weaken one of the structural foundations of dollar dominance: its central role in global trade invoicing and settlement. From a reserve management perspective, however, such developments would only become systemically relevant if supported by deeper financial markets, scalable liquidity infrastructure, and greater confidence in alternative legal and institutional frameworks.

Key features include:

- expanded use of financial sanctions;
- regional payment systems replacing global platforms;
- preferential trade invoicing within political blocs; and
- regulatory barriers to cross-border capital flows.

In such an environment, reserve portfolios become more politically differentiated. Some countries increase exposure to USD to preserve access to US financial infrastructure, while others deliberately reduce exposure to limit vulnerability to sanctions.

Gold plays a larger role as a politically neutral asset, and regional currencies gain importance within specific trade networks. For reserve managers, this scenario raises complex trade-offs between financial efficiency and political risk management. Portfolio optimisation becomes inseparable from foreign policy considerations.

7.4. Shock-driven transition scenario

Historical experience suggests that reserve currency transitions often require crises. In this scenario, a severe shock undermines confidence in USD assets. Possible triggers include:

- a disorderly fiscal crisis in the US;
- prolonged impairment of US Treasury market functioning;
- a breakdown in central bank independence; or
- extreme geopolitical escalation involving asset freezes.

Such an event could accelerate diversification dramatically, but at the cost of substantial market disruption. The absence of ready substitutes would amplify volatility and potentially destabilise global liquidity provision. From a practitioner perspective, this is the least desirable outcome. Reserve managers prioritise stability and would prefer gradual adjustment even if confidence erodes.

The implications of the different scenarios for major reserve assets are summarised in *Table 2* below. The table highlights that while diversification increases across most scenarios, the absence of scalable and fully credible alternatives constrains the speed and extent of any transition away from USD.

Table 2
Role of major reserve assets across scenarios

Asset class	Baseline scenario: persistent USD dominance	Multipolar transition	Fragmentation / blocs	Shock-driven transition
US dollar (USD)	Remains dominant anchor; gradual decline in share, but retains central role in liquidity, collateral, and invoicing	Still the largest reserve currency, but with a reduced share; coexists with EUR and RMB	Core currency within a US-aligned bloc; reduced role elsewhere	Loss of confidence triggers disorderly adjustment; still widely used as substitutes remain limited
Euro (EUR)	Modest increase through diversification at the margin; constrained by the absence of a unified safe asset	Gains share if deeper integration, joint issuance, and capital markets union advance	Stronger regional role within a European and aligned bloc; limited global expansion	Potential safehaven beneficiary, though inflows are constrained by market fragmentation and limited common safe-asset supply
Renminbi (RMB)	Limited increase; constrained by capital controls and governance concerns	Expands if liberalisation progresses; still remains below USD and EUR in scale	Core currency in a China-centred bloc; increased use in trade invoicing and regional reserves	Gains as an alternative to USD, but its role is capped by convertibility and trust constraints
Smaller currencies (JPY, CHF, CAD, AUD, etc.)	Continue to play a marginal diversification role	Slightly larger role as secondary diversifiers; still not systemic because of limited market size	Regional importance increases within aligned networks, but scale remains too small for a major systemwide role	Temporary safehaven inflows are possible, but limited market depth prevents a structural shift

Gold	Gradual increase as a diversification tool and geopolitical hedge	Continued rise as a neutral reserve asset alongside multiple currencies	Strong increase due to sanctions risk and demand for politically neutral stores of value	Major beneficiary as a crisis hedge, though liquidity and storage constraints limit substitution for currency reserves

Note: The following scenarios are purely illustrative analytical constructs used for academic discussion. They do not represent forecasts, predictions or recommendations regarding the future performance or allocation of any currency or asset class.

7.5. Implications across scenarios

Across all scenarios, three common themes emerge.

First, structural features dominate short-term outcomes. Beliefs can change rapidly, but portfolio adjustment is constrained by infrastructure and market capacity.

Second, institutional reform matters more than policy rhetoric. Changes in reserve currency status follow from safe-asset supply, legal frameworks, and market integration, not declarations of intent.

Third, geopolitical risk is now an enduring component of reserve management. Even in the baseline scenario, political considerations increasingly shape strategic thinking.

From the standpoint of those managing reserves, the international monetary system is best understood as stable, but brittle. It is stable because operational constraints anchor portfolios to the dollar; it is brittle because confidence is concentrated in a narrow institutional core. This combination explains why dissatisfaction coexists with persistence, and why diversification is cautious even when political risk is rising.

Reserve managers therefore approach future scenarios defensively. The objective is not to engineer transformation, but rather to preserve optionality: to maintain liquidity, protect against extreme outcomes, and adapt incrementally as conditions evolve. In this sense, the international monetary system is drifting, rather than transitioning.

8. Discussion: Interpreting stability, risk, and change in the international monetary system

The preceding sections examined reserve manager behaviour, the structural foundations of dollar dominance, the limits of available alternatives, and plausible future scenarios. This section synthesises these strands and outlines their broader implications as to how the international monetary system should currently be interpreted.

Rather than framing the system in terms of imminent transition or immutable stability, the evidence points to a more complex configuration: a system that is operationally resilient, yet strategically fragile; adaptive at the margin, yet resistant to structural transformation.

8.1. Dominance without confidence

One central empirical finding of this paper is the growing divergence between confidence and dependence. Survey evidence documents declining trust in the institutional and political environment underpinning the dollar. Concerns about fiscal sustainability, governance, central bank independence, and the weaponisation of financial infrastructure are no longer confined to a small subset of respondents.
They are now part of mainstream reserve management discourse.

At the same time, realised reserve allocations remain heavily concentrated in USD assets. This coexistence of scepticism and reliance would appear to be contradictory in a purely theoretical framework. In practice, it reflects the binding role of infrastructure, liquidity, and institutional constraints. Dollar dominance, in this sense, no longer rests primarily on positive preference. It rests on the absence of operational substitutes.

8.2. Inertia as a rational response

The persistence of USD-centric portfolios should not be interpreted as complacency or lack of awareness. For reserve managers, inertia is often the rational outcome of risk minimisation under uncertainty.

Reallocation away from the dollar entails accepting:

- lower liquidity,
- greater price volatility,
- legal and political opacity, or
- operational complexity.

Against this backdrop, maintaining USD exposure is not an endorsement of US policy or institutions, but rather a defensive choice in an imperfect environment. This distinction is important for policy interpretation. Observed stability does not imply underlying comfort with the system; it reflects constrained optimisation.

8.3. Limits of market-led adjustment

Much of the academic literature assumes that shifts in relative economic weight, financial development, or investor preferences will eventually translate into changes in reserve currency status (*Cohen 1998; Eichengreen 2011; Farhi and Maggiori 2018*).

The evidence presented here suggests that such mechanisms operate only weakly in the presence of:

• strong network externalities,

• regulatory and governance constraints, and

• the central role of collateral and settlement infrastructure.

Market-led adjustment is therefore slow, path-dependent, and highly sensitive to institutional reform. Without changes in safe-asset supply, legal frameworks, and financial integration, even large shifts in sentiment may produce only marginal portfolio rebalancing.

8.4. Geopolitics as a structural variable

Another implication concerns the role of geopolitics. Historically, geopolitical considerations were treated as episodic shocks to an otherwise economically driven system. The repeated survey evidence suggests that this is no longer the case. Political risk has become a structural parameter of reserve management (*Table 4*).

This does not mean that portfolios will be rapidly reshaped along geopolitical lines. It does mean that traditional metrics of reserve adequacy and portfolio optimisation are increasingly complemented by scenario analysis involving sanctions, asset freezes, and financial decoupling. In this respect, reserve management has become an exercise in strategic risk management, rather than purely financial optimisation.

Table 4
Top 3 risks for reserve managers (2016–2025)

Year	#1 Risk	#2 Risk	#3 Risk
2025	Trade war escalation	Military conflicts (Ukraine, Middle East)	Economic volatility (inflation, cycles)
2024	Geopolitical conflicts (Russia, US–China, Middle East)	Persistent inflation / rising yields	Economic volatility

2023	Geopolitical conflicts (Russia, US–China)	Persistent inflation / rising yields	Global recession
2022	Inflation / rising yields	Geopolitical conflicts (Russia, US–China)	Commodity prices & energy security
2021	Failure to end the pandemic	Government debt levels	Inflation / rising yields
2020	Trade wars (protectionism)	Global slowdown / deflation	US political developments
2019	Trade wars	Global slowdown / deflation	China hard landing
2018	Trade wars	EU political developments	US political developments
2017	US political developments (protectionism)	EU political developments	China hard landing
2016	China hard landing	Deflation	Euro area crisis

Source: UBS RMS Survey, 2016–2025

8.5. Fragility beneath stability

The combination of concentrated dependence and declining confidence creates a latent fragility. As long as markets function and crises are managed effectively, the system appears robust. However, confidence is increasingly contingent rather than unconditional. This configuration differs from earlier periods of dollar dominance, when institutional trust and operational dependence reinforced each other. Today, they increasingly diverge. Such divergence does not guarantee instability, but it increases the system's sensitivity to extreme events.

8.6. Implications for analysis and policy debate

These findings suggest that debates framed in terms of "de-dollarisation" versus "dollar supremacy" risk oversimplification. A more accurate characterisation is incremental adaptation within a structurally rigid system. For analysts, this implies that:

- survey-based evidence should be treated as an early indicator of structural pressure;
- aggregate reserve data should be interpreted with caution; and
- institutional reform should be viewed as a prerequisite for meaningful change.

For policymakers, it implies that credibility, legal predictability, and crisis management capacity remain more important than rhetorical ambition in shaping the future of international currencies.

9. Policy implications

The analysis in this paper has implications for three broad groups of actors: the US as issuer of the dominant reserve currency, the euro area and other jurisdictions seeking to expand the international role of their currencies, and reserve-holding central banks navigating an increasingly complex environment. These implications follow directly from the central finding that the international monetary system is characterised by operational dependence combined with declining institutional confidence.

9.1. Implications for the US

For the US, reserve currency status is often portrayed as a source of privilege: lower borrowing costs, external financing flexibility, and geopolitical leverage. While these benefits remain substantial, the evidence suggests that they are becoming more conditional.

First, institutional credibility has become a core asset. Survey responses indicate that reserve managers increasingly view central bank independence, fiscal governance, and legal predictability as integral to the value of dollar assets. Concerns in these areas do not translate immediately into portfolio shifts, but they shape long-term risk assessments and scenario planning.

From a policy perspective, this implies that:

- safeguarding the operational independence of the Federal Reserve;
- maintaining predictable debt management practices; and
- preserving the integrity of legal and settlement institutions;

are not merely domestic policy choices, but rather components of international monetary stability.

Second, the weaponisation of finance entails trade-offs. The use of sanctions and financial restrictions has reinforced the geopolitical relevance of the dollar, but it has also altered perceptions of neutrality. Reserve managers increasingly treat access to USD infrastructure as a political contingency rather than a given. This does not imply that sanctions should be abandoned. It does imply that their systemic consequences should be considered alongside their immediate objectives.

Third, market functioning matters as much as macroeconomic fundamentals. Episodes of stress in US Treasury markets have drawn close attention from reserve managers. Ensuring the resilience of market-making capacity, repo markets, and clearing infrastructure is central to preserving the dollar's operational advantages.

9.2. Implications for the euro area

For the euro area, the findings point to both opportunity and constraint. The euro is widely regarded as the only currency with the economic scale and institutional foundation to complement the dollar in a meaningful way. At the same time, repeated surveys suggest that its potential remains constrained by structural features rather than by policy communication. Three priorities stand out.

First, safe asset supply. Joint issuance under the Next Generation EU programme has materially improved the availability of high-quality EUR-denominated assets. Extending this framework, or developing a permanent common issuance mechanism, would address one of the most frequently cited obstacles to greater reserve use of the euro.

Second, financial integration. Progress toward a genuine capital markets union remains essential. Fragmented market structures limit liquidity, reduce collateral usability, and complicate large-scale portfolio management by official investors.

Third, institutional clarity in crisis management. While the euro area's crisis toolkit has expanded, its political complexity remains a source of uncertainty for external investors. Clearer, faster, and more predictable mechanisms would strengthen confidence in the euro's ability to function as a systemic reserve currency during periods of stress.

The ECB's evolving stance, framing a stronger international role for the euro as a by-product of financial resilience and strategic autonomy, is broadly consistent with reserve manager preferences. However, credibility will depend on institutional delivery rather than rhetorical ambition.

9.3. Implications for China and other aspiring issuers

For China, the analysis highlights the tension between strategic ambitions and institutional constraint. Internationalising the renminbi would require:

- greater capital account openness,
- improved legal transparency, and
- more predictable regulatory practices.

Each of these steps carries domestic policy trade-offs. Absent such reforms, the renminbi is likely to remain a supplementary reserve asset rather than a systemic alternative.

For other jurisdictions, including Japan, Switzerland, Canada, and Australia, the implication is that their currencies will continue to play niche diversification roles. Structural limits to market size and safe-asset supply constrain their capacity to move beyond this function.

9.4. Implications for central banks

For reserve managers themselves, the findings suggest a redefinition of best practice.

Traditional reserve management frameworks have typically emphasised liquidity, safety, and return. These criteria remain central. However, they are increasingly complemented by geopolitical risk assessment, scenario analysis involving sanctions and market segmentation, and consideration of operational resilience across multiple infrastructures. In practical terms, this implies maintaining diversified liquidity buffers, developing operational capacity to manage assets across jurisdictions, and strengthening internal governance to handle politically sensitive portfolio choices. Importantly, diversification should be understood as risk layering rather than as an attempt to forecast systemic transition.

9.5. A restrained policy message

One final implication concerns the tone of policy debate.

Calls for rapid de-dollarisation, or for deliberate currency rivalry, are unlikely to align with the incentives or constraints faced by reserve managers. They risk underestimating the depth of structural dependence embedded in the system.

A more realistic objective is incremental strengthening of institutional foundations across major currency areas. In this sense, the future of the international monetary system will be shaped less by strategic declarations than by the credibility of legal systems, the resilience of financial markets, and the quality of macroeconomic governance.

10. Conclusions

This paper has examined the evolving position of the dollar in the international monetary system through the lens of reserve manager behaviour, structural market characteristics, and institutional credibility.

Contrary to narratives of rapid de-dollarisation, the evidence points to a system characterised by changes in perception and continuity in outcomes. Survey-based evidence from repeated UBS Reserve Manager Surveys reveals a clear shift in how official investors assess the foundations of dollar dominance. Concerns regarding fiscal sustainability, political polarisation, central bank independence, and the weaponisation of financial infrastructure have become increasingly salient. These concerns now form part of mainstream reserve management discourse.

At the same time, aggregate reserve data continue to show a high degree of concentration in USD assets. This apparent contradiction reflects the structural features that anchor portfolio decisions: market depth, liquidity under stress, collateral usability, legal certainty, and the ability of the US to supply safe assets elastically during crises.

From a practitioner perspective, this combination of declining confidence and persistent dependence is not paradoxical. It is the natural outcome of constrained optimisation in an environment where operational requirements dominate strategic preferences.

From a broader academic perspective, the paper contributes to the literature in three ways. First, it introduces a practitioner-oriented framework for analysing the international monetary system through the interaction of beliefs, intentions, and outcomes, highlighting the different speeds at which perceptions and portfolio allocations evolve. Second, by combining repeated survey evidence with aggregate reserve data, it provides an institutional explanation for the persistent gap between declining confidence in USD and limited portfolio reallocation. Third, it complements existing theories of reserve currency dominance – centred on hegemonic stability, network effects, and global liquidity – by emphasising the operational and governance constraints faced by reserve managers, including liquidity requirements, benchmark effects, reputational considerations, and political oversight.

The evaluation of alternatives reinforces this conclusion. The euro, while institutionally credible, continues to be constrained by incomplete fiscal integration and fragmented capital markets. The renminbi is limited by capital controls and governance concerns. Gold and smaller currencies offer hedging benefits, but lack the scalability required for systemic substitution. Digital assets and central bank digital currencies, for now, address transaction efficiency, rather than the structural foundations of reserve currency status.

Scenario analysis suggests that the most plausible future is one of gradual diversification within a USD-centred system. More radical transitions are possible, but they are likely to be crisis-driven rather than policy-engineered.

The policy implications are correspondingly sober. For the US, reserve currency status increasingly depends on preserving institutional credibility and market functioning rather than on economic size alone. For the euro area and other aspiring issuers, structural reform matters more than strategic ambitions. For reserve-holding central banks, the task is to manage rising geopolitical risk without compromising liquidity and stability.

Taken together, these findings point to an international monetary system that is stable in form, but fragile in confidence. It is stable because the operational infrastructure of global finance remains overwhelmingly dollar-based. It is fragile because trust in the institutions underpinning that infrastructure is no longer unconditional.

In this sense, the system is not undergoing a transition so much as a re-pricing of political and institutional risk.

For practitioners, this implies a prolonged period of cautious adaptation: incremental diversification, greater emphasis on operational resilience, and continuous reassessment of scenarios previously considered remote.

For analysts and policymakers, it implies that meaningful change will emerge not from declarations of currency rivalry or strategic intent, but from the slow accumulation of institutional reforms, market development, and credibility.

Dollar dominance, therefore, is not about to disappear. But it is no longer taken for granted. As I argued in a recent article: "*As Mark Twain might have said, reports of the dollar's demise are greatly exaggerated. But they're no longer entirely unfounded either*" (*Castelli 2025*).

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